



**Step-By-Step Instructions
+
EXAM BOOKLET**

**for
CTEC & IRS Continuing Education**



**2026
EDITION**

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Part A. Before You Start

Please Read This Page First

CTEC and the IRS have approved this self-paced course (which takes about 20 hours to complete). As a result of that approval, students who successfully complete this course will be awarded the maximum annual amount of continuing education hours for CTEC (20 hours) and the IRS (15 hours).

In addition to this *Exam Booklet*, you should also have the *Course Reader* (if you don't, visit <https://www.caltaxschool.org/6109KyivUKQP.htm> to download a copy). The *Reader* is the teaching tool that presents the subject matter. After reading the test question in this booklet, go to the *Reader* to find the relevant topic that will help you answer the test question.

Students have three options for recording and then submitting final exam answers. There is more information about submission methods on pages 7 and 34, but here is a brief description of the three answer forms:

- *Login version of online answer form for multiple sessions.* With this option, students may answer as few or as many questions as they like per study session. They can save their progress, log out, and sign in again later.
- *Traditional answer form.* This is the scantron-like form where students fill in the bubbles for their answer selections. This answer form can be delivered by email, fax, or text message.
- *Short version of online answer form for one session.* This website form could be useful to students who have recorded their test answers on paper (i.e., the traditional answer form) and want to transfer their information online for faster processing. This streamlined answer form requires no username, password, or access code.

The date of course completion affects the grading fee (due at the end of the course). Students who pass the final exam between June 22 and September 20 will qualify for the reduced rate of **\$24.50**. Students who pass the final exam between September 21 and September 30 will be eligible for the reduced rate of **\$36.75**. The fee on or after October 1 will be **\$49**.

This fee will be refunded if you do not achieve a passing score on any course component. This CE program has “bundled” together four different modules — federal tax law overview (10 credit hours), federal tax law update (3 credit hours), ethics (2 credit hours), and California (5 credit hours). According to CTEC Regulation CP13, a student must pass each and every component before a bundled course provider may issue the full slate of 20 credit hours to that student (please refer to the next page for more information on CP13).

Once it is determined that you have scored 70% or higher on each course component, your test results, certificate, and CE credits will be delivered shortly thereafter (to learn more about turnaround times, please read page 5, question 5).

When you receive the email containing your test results, please click the CTEC link to access your CTEC account for registration renewal. Page 28 lists all the steps you should take after completing this program.

Thank you very much for your interest in our program, and we look forward to serving you!

Policies & Requirements

This course is for CRTPs only

Being a CTEC-registered tax professional is the sole prerequisite for this course. Students who have enrolled for this course through <https://www.CalTaxSchool.org> (“enrollees”) may not distribute, deliver, or pass along this Exam Booklet to individuals who have not enrolled in the program (“ineligible participants”). Although we are grateful that enrollees like to share our course materials with others, it is often the case that enrollees distribute materials to individuals who are not eligible for this course. These ineligible participants often devote considerable time to the program only to discover their efforts were in vain.

Level of Difficulty

Trying to convey the course’s “level of difficulty” is problematic since the needle will often move with each student’s background and experience. However, we can present last year’s pass ratio as a possible indicator of the CE program’s “level of difficulty.”

Throughout our 20-year history, the pass ratio has been fairly consistent. Assuming this trend continues into 2026, it might be worth noting that 96% of all students who participated in our 2025 CE program passed on their first attempt. Of the passing students, 12% achieved a perfect score on the final exam.

No Advance Preparation Necessary

Prospective students do not need to prepare for this course in advance, but we recommend that they preview the exam questions and textbook (e.g., the table of contents) before committing to the CE program.

IRS Credit Hours

Students who successfully complete this continuing education program will have their PTIN accounts credited in the following manner:

- ▶ 10 hours for Federal Tax Laws (IRS Program Number: K7RW7-T-00053-26-S)
- ▶ 3 hours for Federal Tax Updates (IRS Program Number: K7RW7-U-00052-26-S)
- ▶ 2 hours for Ethics (IRS Program Number: K7RW7-E-00051-26-S)

CTEC Credit Hours

Students who successfully complete this continuing education program (CTEC Course Number: 3055-CE-02620) will have their CTEC accounts credited in the following manner:

- ▶ 10 hours for Federal Tax Laws
- ▶ 3 hours for Federal Tax Updates
- ▶ 2 hours for Ethics
- ▶ 5 hours for California Tax Laws (*required by CTEC, but not by the IRS*)

Definition of “Successful Completion”

CTEC Regulation CP13(l)(4) requires 20-hour “bundle” programs to grade each course component separately. A minimum grade of 70% is required for each course component — federal tax law overview, federal tax law update, ethics, and California. A 20-hour course participant must pass each and every module before an education provider is allowed to credit that student with 20 CE hours.

For example, a student correctly answers 6 out of 10 questions in the Ethics section. After scoring 60% on ethics, the student scores 100% on the remaining 90 questions, which cover federal tax law overview, federal tax law update, and California. According to CTEC Regulation CP13(l)(4), this student has not successfully completed the 20-hour bundle program and is not eligible to receive any credit hours.

Examination Retake & Refund Policy

Full refunds are automatically issued to students who score below 70% on any course component. Nonpassing students may choose to retake the exam and **study only those course components they did not pass**. Students have four opportunities to pass the entire course (first attempt plus three retakes).

Frequently Asked Questions

1. When is the deadline for completing this course?

This course must be completed by **12/31/2026**, but please read the next paragraph for more information on the \$55 late fee assessed by CTEC after 10/31/2026.

2. Will I lose my tax license if I do not register with CTEC by October 31?

CRTPs who do not register with CTEC by October 31 will be considered delinquent (i.e., late) as of November 1. CTEC then grants an emergency extension period from November 1 until January 15. If a delinquent preparer satisfies all prerequisites and applies for renewal during this late registration period, CTEC would assess a \$55 late fee in addition to the \$33 registration fee (\$88 total).

January 15 is the registration deadline for CTEC. If a late registrant does not complete all requirements by the January 15 deadline, their CTEC registration will be permanently **EXPIRED**. The permanent expiration of a CTEC account means that the former account holder can no longer prepare client returns for a fee in California unless that individual is an attorney, CPA, or EA.

3. This course is often referred to as a "20-hour" course. Is that a minimum or maximum time limit?

We do not monitor your study time. We do not impose a minimum or maximum time limit for this course. You may take as little or as much time as you need to complete this SELF-PACED course. All we ask is that you submit your 2026 exam answers by 12/31/2026.

4. How do I pay for the course?

The grading fee is only requested after you complete the course. You may charge the grading fee to your credit card through the *traditional answer form* on page 8. For faster service, visit our website and transfer your test information to the *online answer form* that links to a secure, SSL-encrypted checkout.

5. After sending you my test information, how long will I have to wait to receive my certificate, credits, and score?

Processing time depends on how the student submits their test information and the number of submissions we receive on a given day.

Passing students who submit their test information and grading fee through our WEBSITE will receive their CTEC and IRS credits, certificate of completion, and test results in less than 24 hours. Turnaround time ranges from 5 minutes to 24 hours, with the average being around **3 hours**.

Passing students who submit their traditional answer form (with valid payment data) through EMAIL, FAX, or TEXT MESSAGE will receive their credit hours, certificate, and test results in 16 to 48 hours.

6. What happens if I score below 70% on the final exam?

Students who score below 70% on the final exam of any course component (federal tax law overview, federal tax law update, ethics, or California) are issued a full refund. Non-passing students may choose to retake the exam, which would require submitting a revised answer form along with the applicable grading fee on the resubmission date. Students have four opportunities to pass the entire course (initial attempt plus three retakes).

7. How does your school report our course completion to CTEC and the IRS?

Immediately after determining that a student has scored 70% or higher on the final exam of all course components, the California Tax School connects to CTEC's database and electronically reports the student's education. Once a passing student's CTEC account is credited with 20 continuing education hours, that student's online CTEC account at <https://preparer.ctec.org/> will instantly display their new education details.

After continuing education is reported to CTEC, the California Tax School will also report or "upload" a student's education file to the IRS system. Please note that the IRS system may take up to 7 days to integrate the uploaded education data into the student's online PTIN account at <https://www.irs.gov/ptin>.

8. My question is not on this list. How do I contact you?

Our email address is support@caltaxschool.net. Email customer service is available 24/7/365.

Our toll-free number is **877-900-4346**. Telephone assistance is available Monday through Friday, 9 am to 5 pm.

Important Dates 2026 (1st Notice)

August 1 (Saturday) CTEC begins accepting registration renewals for 2026-2027.
September 20 (Sunday) Must pass (and pay for) the final exam by 11:59 pm to qualify for the reduced rate of \$24.50.
September 21 (Monday) Course fee increases to \$36.75.
September 30 (Wednesday) Must pass (and pay for) the final exam by 11:59 pm to qualify for the reduced rate of \$36.75.
October 1 (Thursday) Course fee increases to \$49; this will be the rate for the remainder of the year.
October 15 (Thursday) IRS begins accepting PTIN renewals for 2026-2027.
October 28 (Wednesday) Test information received on or before October 28 will be processed by October 31, regardless of delivery method (web, email, fax, or text message).
October 29 – October 30 The final three days of October are the busiest of the year. For those who submit test information during this busy period, we strongly recommend using one of the website answer forms for faster service. We cannot guarantee that traditional answer forms (delivered by email, fax, or text message) will be processed by 11:59 pm on October 31.
October 31 (Saturday) Students who submit their final exams on October 31 might not have their credits posted by midnight due to the high volume of submissions. Paying a \$55 late fee to CTEC is undesirable, but rushing through a course on important tax laws could result in tax returns that are incorrectly prepared. Please consider spreading out your study time (across days or weeks) to better understand and memorize any course content that will benefit you and your clients.
December 31 (Thursday) LAST DAY TO SUBMIT FINAL EXAM ANSWERS FOR THIS 2026 COURSE. The IRS observes December 31 as the AFSP deadline without extensions.
January 15 (Friday) LAST DAY TO RENEW YOUR CTEC REGISTRATION.

How to Record & Submit Test Answers

Students can record or submit test answers in one of three ways. Please read the description of each answer form before deciding on which one to use.

LOGIN VERSION OF THE ONLINE ANSWER FORM FOR MULTIPLE SESSIONS

This answer form displays each question along with all answer options. Students may answer as few or as many questions as they like per study session. They can save their progress, log out, and then sign in again later (at which time they would resume where they left off).

To reach this answer form, visit <https://www.caltaxschool.org/6302-cmaf.htm> or scan the following QR code with your mobile device:



To get started with the login version of the online answer form, you will be asked for the following **ACCESS CODE: serendipity**

After you submit your test information (and course fee) through this method, your test results will be delivered in as little as 5 minutes, although the average processing time is about 3 hours.

TRADITIONAL OFFLINE ANSWER FORM (ON THE NEXT PAGE)

The traditional answer form can be delivered by email, fax, or text message. Our email addresses and telephone numbers are listed on the last page of this Exam Booklet.

The traditional answer form requires manual processing, which could take up to 48 hours to complete. In most cases, however, our turnaround time for traditional answer forms is about 16 hours.

SHORTENED & SIMPLIFIED ONLINE ANSWER FORM FOR ONE SESSION

This website form could be helpful to students who have recorded their test answers on paper (i.e., the traditional answer form) and want to transfer their information online for faster processing. For the sake of brevity, neither the test questions nor the text of the possible answers are displayed here – just the A, B, C, and D letter options. This easy-to-access answer form requires no username, password, or access code.

To reach this answer form, visit <https://www.caltaxschool.org/6115-fpaf1.htm> or scan the following QR code with your mobile device:



After you submit your test information (and course fee) through this method, your test results will be delivered in as little as 5 minutes, although the average processing time is about 3 hours.

Traditional Answer Form (2026 Version)

One way to record your answers as you proceed with the exam is to print this page, then fill in the bubbles with a pen or pencil. You can choose to deliver your test answers through our WEBSITE then refer to the top section of this form during the data-entry phase. If you decide to EMAIL, FAX, or TEXT this page, then TYPE your information below, or use a pen with DARK INK because pencil markings will not appear at our end.

1	(a)	(b)	(c)	(d)	26	(a)	(b)	(c)	(d)	51	(a)	(b)	(c)	(d)	76	(a)	(b)	(c)	(d)
2	(a)	(b)	(c)	(d)	27	(a)	(b)	(c)	(d)	52	(a)	(b)	(c)	(d)	77	(a)	(b)	(c)	(d)
3	(a)	(b)	(c)	(d)	28	(a)	(b)	(c)	(d)	53	(a)	(b)	(c)	(d)	78	(a)	(b)	(c)	(d)
4	(a)	(b)	(c)	(d)	29	(a)	(b)	(c)	(d)	54	(a)	(b)	(c)	(d)	79	(a)	(b)	(c)	(d)
5	(a)	(b)	(c)	(d)	30	(a)	(b)	(c)	(d)	55	(a)	(b)	(c)	(d)	80	(a)	(b)	(c)	(d)
6	(a)	(b)	(c)	(d)	31	(a)	(b)	(c)	(d)	56	(a)	(b)	(c)	(d)	81	(a)	(b)	(c)	(d)
7	(a)	(b)	(c)	(d)	32	(a)	(b)	(c)	(d)	57	(a)	(b)	(c)	(d)	82	(a)	(b)	(c)	(d)
8	(a)	(b)	(c)	(d)	33	(a)	(b)	(c)	(d)	58	(a)	(b)	(c)	(d)	83	(a)	(b)	(c)	(d)
9	(a)	(b)	(c)	(d)	34	(a)	(b)	(c)	(d)	59	(a)	(b)	(c)	(d)	84	(a)	(b)	(c)	(d)
10	(a)	(b)	(c)	(d)	35	(a)	(b)	(c)	(d)	60	(a)	(b)	(c)	(d)	85	(a)	(b)	(c)	(d)
11	(a)	(b)	(c)	(d)	36	(a)	(b)	(c)	(d)	61	(a)	(b)	(c)	(d)	86	(a)	(b)	(c)	(d)
12	(a)	(b)	(c)	(d)	37	(a)	(b)	(c)	(d)	62	(a)	(b)	(c)	(d)	87	(a)	(b)	(c)	(d)
13	(a)	(b)	(c)	(d)	38	(a)	(b)	(c)	(d)	63	(a)	(b)	(c)	(d)	88	(a)	(b)	(c)	(d)
14	(a)	(b)	(c)	(d)	39	(a)	(b)	(c)	(d)	64	(a)	(b)	(c)	(d)	89	(a)	(b)	(c)	(d)
15	(a)	(b)	(c)	(d)	40	(a)	(b)	(c)	(d)	65	(a)	(b)	(c)	(d)	90	(a)	(b)	(c)	(d)
16	(a)	(b)	(c)	(d)	41	(a)	(b)	(c)	(d)	66	(a)	(b)	(c)	(d)	91	(a)	(b)	(c)	(d)
17	(a)	(b)	(c)	(d)	42	(a)	(b)	(c)	(d)	67	(a)	(b)	(c)	(d)	92	(a)	(b)	(c)	(d)
18	(a)	(b)	(c)	(d)	43	(a)	(b)	(c)	(d)	68	(a)	(b)	(c)	(d)	93	(a)	(b)	(c)	(d)
19	(a)	(b)	(c)	(d)	44	(a)	(b)	(c)	(d)	69	(a)	(b)	(c)	(d)	94	(a)	(b)	(c)	(d)
20	(a)	(b)	(c)	(d)	45	(a)	(b)	(c)	(d)	70	(a)	(b)	(c)	(d)	95	(a)	(b)	(c)	(d)
21	(a)	(b)	(c)	(d)	46	(a)	(b)	(c)	(d)	71	(a)	(b)	(c)	(d)	96	(a)	(b)	(c)	(d)
22	(a)	(b)	(c)	(d)	47	(a)	(b)	(c)	(d)	72	(a)	(b)	(c)	(d)	97	(a)	(b)	(c)	(d)
23	(a)	(b)	(c)	(d)	48	(a)	(b)	(c)	(d)	73	(a)	(b)	(c)	(d)	98	(a)	(b)	(c)	(d)
24	(a)	(b)	(c)	(d)	49	(a)	(b)	(c)	(d)	74	(a)	(b)	(c)	(d)	99	(a)	(b)	(c)	(d)
25	(a)	(b)	(c)	(d)	50	(a)	(b)	(c)	(d)	75	(a)	(b)	(c)	(d)	100	(a)	(b)	(c)	(d)

Name*: _____

CTEC ID ("A" followed by 6 digits)*: _____

IRS PTIN ("P" followed by 8 digits)*: _____

Email address for test results*: _____

Mobile phone number (to get a congratulatory text message): _____

Grading fee is \$24.50 until 9/20/2026; \$36.75 between 9/21/2026 & 9/30/2026; \$49 after 9/30/2026

The grading fee applicable on today's date will be paid with: ☐ Visa ☐ MasterCard ☐ Amex ☐ Discover

Card number*: _____ Expiration date*: _____

Send completion certificate to one or both of the following (your selection may affect the payment amount):

☐ Email address above; certificate delivered in 16 to 48 hours; **NO EXTRA COST**

☐ Mailing address below; certificate delivered in <15 days; **\$8.46 SHIPPING FEE WILL BE ADDED TO TOTAL**

Mailing address: _____

City and Zip: _____

Part B. 100 Multiple-Choice Test Questions

Open-Book Exam

Part A. FEDERAL TAX LAW OVERVIEW (10 CE HOURS)

Chapter 1. INTRODUCTION TO THE OBBBA

1. Daniel is 67 years old and single. He asks you about new tax benefits available to non-itemizers in 2026. Which of the following OBBBA provisions may apply to Daniel's tax return?

- ☐ {a}. He may take a tax credit for car loan interest on any foreign vehicle.
- ☐ {b}. He is eligible for a new \$1,000 tax-deferred savings account contribution from the government.
- ☐ {c}. He may be eligible for a \$6,000 above-the-line deduction specifically for seniors.
- ☐ {d}. All of the above.

2. Bernard's regular income tax is \$45,000. After performing the AMT calculation on IRS Form 6251, he determines his tentative minimum tax is \$55,000. What should Bernard do?

- ☐ {a}. Pay only the regular tax of \$45,000.
- ☐ {b}. Pay \$55,000, with \$10,000 reported as AMT on Schedule 2 and added to the regular tax on Form 1040.
- ☐ {c}. Pay \$100,000, which is the sum of the regular tax and the AMT.
- ☐ {d}. File for an AMT credit of \$10,000 to be applied against the current year's regular tax liability.

Chapter 2. TAX BENEFITS FOR EDUCATION AND YOUTH

3. Felisha opened a Trump Account for her newborn in 2026. The account received a \$1,000 government seed contribution, and Felisha later added \$4,000 in family contributions using money that had already been taxed. She wants to know **which amounts can be withdrawn tax-free** when the child starts taking money out after turning 18. Which response is correct?

- ☐ {a}. All distributions will be tax-free.
- ☐ {b}. Only the after-tax family contributions will be tax-free; the portion of distributions representing the \$1,000 seed and earnings will be taxable.
- ☐ {c}. All distributions will be taxed at capital gain rates.
- ☐ {d}. The \$1,000 seed and all earnings will be tax-free; the portion of distributions representing family contributions will be taxable.

4. Which of the following TCJA enhancements to ABLE accounts was permanently extended by the OBBBA?

- ☐ {a}. Individuals with disabilities who work may contribute an additional amount to their ABLE accounts (beyond the standard \$20,000 limit).
- ☐ {b}. Individuals with disabilities may transfer funds from 529 plans to ABLE accounts without incurring a penalty.
- ☐ {c}. Disabled individuals who work and deposit a portion of their earnings into their ABLE account may qualify for the saver's credit.
- ☐ {d}. The OBBBA permanently extended all three TCJA ABLE enhancements.

5. IRC Section 127 was expanded in 2020 to allow employers to make tax-free payments toward an employee's student loans. In 2026, the excludable amount of employer-paid tuition and/or student loan payments is:

- ☐ {a}. unlimited
- ☐ {b}. limited to \$20,000 per employer per year
- ☐ {c}. limited to \$5,250 per employee per year (indexed for inflation after 2026)
- ☐ {d}. \$0; the exclusion for employer-provided educational assistance was not renewed by the OBBBA and expired after December 31, 2025

6. A taxpayer had been paying down their federal student loan for 20 years on an income-driven repayment (IDR) plan. In 2026, the remaining balance of the loan was forgiven. The forgiven student loan debt does not qualify for the Public Service Loan Forgiveness exclusion under Section 108(f)(1). Which of the following provisions might still allow the taxpayer to exclude the forgiven amount from gross income **in 2026?**

- ☐ {a}. The student loan interest deduction.
- ☐ {b}. The temporary broad exclusion for student debt under ARPA.
- ☐ {c}. The exclusion for qualified employer-provided student loan repayment assistance.
- ☐ {d}. The insolvency exception under Section 108(a)(1)(B) or the bankruptcy exclusion under Section 108(a)(1)(A).

7. Beginning in 2026, which individuals must have a valid SSN issued by the Social Security Administration for a taxpayer to claim the American Opportunity tax credit (AOTC) or lifetime learning credit (LLC)?

- ☐ {a}. Only the student for whom the education credit is claimed.
- ☐ {b}. The taxpayer and the student only; the spouse's SSN is never required.
- ☐ {c}. The taxpayer, the taxpayer's spouse (if filing jointly), and the student for whom the credit is claimed.
- ☐ {d}. None of the above; the OBBBA now allows taxpayers, spouses, and students to use an ITIN when claiming education credits.

8. Tashena is a single K-12 teacher who meets the 900-hour requirement and incurs \$1,500 in qualifying unreimbursed classroom expenses in 2026. She itemizes deductions. How may Tashena deduct her educator expenses?

- ☐ {a}. The K-12 teacher deducts \$350 above the line on Schedule 1 and \$1,150 as an itemized deduction on Schedule A.
- ☐ {b}. The K-12 teacher deducts up to \$350 above the line on Schedule 1 (there is no itemized deduction for educator expenses on Schedule A).
- ☐ {c}. The K-12 teacher deducts the full \$1,500 above the line on Schedule 1 (there is no itemized deduction for educator expenses on Schedule A).
- ☐ {d}. The K-12 teacher cannot deduct any amount because the OBBBA repealed this tax benefit.

9. Rob is not a classroom teacher, but he is a full-time interscholastic varsity baseball coach at a public high school. He works 1,100 hours during the school year. He spends \$1,200 of his own money on training equipment and safety gear for the team. Under the changes made by the OBBBA, how may Rob treat these expenses on his 2026 federal tax return?

- ☐ {a}. The OBBBA creates a new itemized deduction for K-12 educators and allows K-12 coaches, such as Rob, to deduct eligible expenses in full on Schedule A.
- ☐ {b}. He can deduct up to \$350 above the line on Schedule 1 (there is no itemized deduction for educator expenses on Schedule A).
- ☐ {c}. He can deduct the full \$1,200 above the line on Schedule 1 (there is no itemized deduction for educator expenses on Schedule A).
- ☐ {d}. He may deduct nothing because a coach who does not teach a classroom subject is not an eligible educator.

Chapter 3. NON-ITEMIZED DEDUCTIONS IN THE OBBBA

10. Which of the following taxpayers may claim the above-the-line moving expense deduction on Schedule 1 (Form 1040)?

- ☐ {a}. A civilian employee relocating for a new private-sector job more than 50 miles from their former home.
- ☐ {b}. A self-employed individual who moves to a new state to expand their business.
- ☐ {c}. A qualified employee of the Intelligence Community required to relocate due to a change in assignment.
- ☐ {d}. A retired 66-year-old military veteran who moves to be closer to a VA hospital.

11. Quinten and Pauline file jointly for 2026. Their MAGI is below \$150,000, and both taxpayers have Social Security numbers. Quinten is 67 and legally blind. Pauline is 64 and not blind. Because of his age, Quinten will qualify for the new \$6,000 senior deduction on Schedule 1-A. What is the couple's **total standard deduction** (to be claimed in addition to the new \$6,000 senior deduction)?

- ☐ {a}. $\$16,100 + \$2,050 = \$18,150$
- ☐ {b}. $\$24,150 + \$2,050 = \$26,200$
- ☐ {c}. $\$32,200 + \$2,050 = \$34,250$
- ☐ {d}. $\$32,200 + \$1,650 + \$1,650 = \$35,500$

12. A married couple filing jointly earns tips from jobs that qualify for the new Schedule 1-A deduction. One spouse made \$18,000 in tips, and the other made \$20,000. Their combined MAGI is below the phaseout threshold. What is the largest deduction they can legally claim for their tip income?

- ☐ {a}. \$25,000 total (capped per return).
- ☐ {b}. \$0 (there is no deduction for tips).
- ☐ {c}. \$19,000 (sum of tips divided by 2).
- ☐ {d}. \$38,000 (full tips, no cap).

13. Sandy is a self-employed independent hairstylist who receives \$24,000 in qualified tips during 2026. Her tips are included in gross income, along with regular compensation. However, net income is what remains after expenses (and salon-based stylists often have very high expenses). Sandy's net income on Schedule C is \$18,000. What is the largest deduction she can legally claim for her tip income?

- ☐ {a}. \$18,000 (the Schedule 1-A deduction is limited to net income from the business).
- ☐ {b}. \$0 (self-employed individuals are ineligible for the deduction).
- ☐ {c}. \$12,000 (the sum of tips divided by 2).
- ☐ {d}. \$24,000 (the full amount of tips received, regardless of net income from the business).

14. Raheem bought a qualifying US-assembled passenger vehicle in 2026. He uses it 60% for personal reasons and 40% for work. Raheem paid \$5,000 in car loan interest. He plans to deduct the work-related portion of the interest (\$2,000) as a business expense on Schedule C. His MAGI is below the phaseout threshold. How much can Raheem deduct as car loan interest on Schedule 1-A?

- ☐ {a}. \$5,000; the total interest paid.
- ☐ {b}. \$3,000, because only personal-use interest is deductible.
- ☐ {c}. \$2,000, because only business-use interest is deductible.
- ☐ {d}. \$0, because the vehicle is not used primarily for business.

15. In 2026, a married couple filing jointly takes the standard deduction and makes \$3,500 in qualifying cash contributions to a public charity. Through the OBBBA's charitable deduction under IRC Section 170(p), these non-itemizers may deduct up to _____ for their cash donations.

- ☐ {a}. \$1,000
- ☐ {b}. \$2,000
- ☐ {c}. \$3,500
- ☐ {d}. \$0 (only itemizers may deduct charitable contributions)

Chapter 4. ITEMIZED DEDUCTIONS AFTER THE OBBBA

16. Ronald (64 years of age) is married to Maria (age 63). The couple will report an AGI of \$100,000 on their joint return. They had out-of-pocket medical expenses of \$17,000 during 2026. Assuming they itemize, how much can Ronald and Maria deduct from these unreimbursed expenses on the 2026 version of Schedule A?

- ☐ {a}. \$17,000 (100% of medical expenses).
- ☐ {b}. \$7,000 (the amount of expenses over 10% of AGI).
- ☐ {c}. \$9,500 (the amount of expenses over 7.5% of AGI).
- ☐ {d}. \$0; the OBBBA repealed the medical deduction.

17. Caroline and Benny are joint filers who itemize deductions. In 2026, they pay \$10,000 in state income taxes, \$9,000 in real property taxes, and \$1,000 in personal property taxes. Their total state and local tax deduction is \$20,000, which is below the OBBBA's SALT cap for 2026 (\$40,400). If the couple's MAGI exceeds \$505,000, what will happen to their SALT deduction?

- ☐ {a}. It will increase.
- ☐ {b}. It will stay the same.
- ☐ {c}. It will be eliminated immediately (the SALT deduction will equal \$0) when MAGI reaches \$505,001.
- ☐ {d}. It will be gradually reduced through a phaseout mechanism, but subject to a hard floor that prevents it from going below \$10,000.

18. Interest paid on a loan that is secured by _____ could be deducted on Schedule A if the dwelling qualifies as the taxpayer's first or second home (and other requirements are met).

- ☐ {a}. a boat with sleeping, cooking, and toilet facilities
- ☐ {b}. a residential property outside of the US (with sleeping, cooking, and toilet facilities)
- ☐ {c}. a recreational vehicle (RV) with sleeping, cooking, and toilet facilities
- ☐ {d}. any of the above

19. In 2026, Alex and Vianey borrowed \$1,150,000 to purchase a primary residence in San Jose. They are joint filers who will itemize deductions on their federal return. Up to _____ of home acquisition debt can generate deductible interest on Schedule A. When a mortgage amount exceeds the post-2017 limit, the excess principal will not produce deductible interest.

- ☐ {a}. \$750,000
- ☐ {b}. \$1,000,000
- ☐ {c}. \$1,150,000
- ☐ {d}. \$0 (the OBBBA repealed the itemized deduction for mortgage interest)

20. Gayl and Stanley are itemizers who take out a \$50,000 home equity loan. If the married couple uses the proceeds of that \$50,000 home equity loan to _____, they would be allowed to deduct all of the interest on the 2026 version of Schedule A (for Form 1040).

- ☐ {a}. buy a new car
- ☐ {b}. pay for their older daughter's wedding
- ☐ {c}. remodel their kitchen (of the home securing the loan)
- ☐ {d}. pay for their younger daughter's college and living expenses not covered by a scholarship

21. The taxpayers listed below will itemize deductions on the 2026 version of Schedule A (attached to Form 1040). Which one of them may claim a deduction for their charitable contribution?

- ☐ {a}. Darnell made a cash donation of \$2,500 to Feeding America [a 501(c)(3) nonprofit organization].
- ☐ {b}. Adela donates blood to the American Red Cross to help patients fight cancer, blood disorders, and traumatic injuries.
- ☐ {c}. Lakeshia contributes to a GoFundMe account created to help a friend facing high medical bills.
- ☐ {d}. All of the above may claim an itemized deduction for their charitable contribution.

22. In 2026, a married couple filing jointly has an AGI of \$200,000 and itemizes deductions. They donate \$2,500 in cash to qualified public charities (their local church, St. Jude Children's Research Hospital, and United Way). After applying the OBBBA's changes to charitable contributions, what is the couple's allowable deduction on Schedule A?

- ☐ {a}. \$0 — the contributions do not exceed the new 7.5%-of-AGI floor (\$15,000).
- ☐ {b}. \$1,500 — the \$2,500 is reduced by the new 0.5%-of-AGI floor (\$1,000).
- ☐ {c}. \$2,000 — the OBBBA's new dollar cap on charitable deductions for itemizers.
- ☐ {d}. \$2,500 — the OBBBA did not make any changes to charitable deductions.

23. In 2026, a wildfire damages a California resident's home. The governor declares a state of emergency and designates it as a natural disaster for special tax purposes, with the Secretary of the Treasury's agreement. FEMA does not classify it as a federal disaster. Can the homeowner claim this loss on their federal income tax return, and if so, which form should they use?

- ☐ {a}. The loss attributed to a state-declared disaster is never deductible on the federal tax return because it did not result from a federally declared disaster.
- ☐ {b}. The loss is deductible on Schedule A (after the loss amount is calculated on Form 4684) because it qualifies as a state-declared disaster under a new OBBBA rule.
- ☐ {c}. The loss is deductible on Schedule 1-A (Form 1040) because the OBBBA has recharacterized personal casualty losses as a non-itemized deduction.
- ☐ {d}. The loss is deductible on Schedule C (Form 1040) because it is a personal casualty loss rather than a business casualty loss.

24. Frank is a self-employed taxpayer who files Schedule C annually; he has never itemized deductions on Schedule A. Frank's warehouse and business equipment were destroyed by a fire in 2026. The fire was not part of a federally or state-declared disaster. Frank's AGI is \$120,000, and the unreimbursed business loss is \$50,000. Which of the following describes the correct tax treatment of this loss?

- ☐ {a}. A business casualty loss is allowed, but only the amount exceeding 10% of AGI is deductible.
- ☐ {b}. The loss is deductible only if Frank amends his prior-year return and attaches Schedule A to the 2025 return.
- ☐ {c}. The loss is nondeductible because business property losses require a disaster declaration under the OBBBA rules.
- ☐ {d}. The loss is fully deductible as a business loss under IRC Section 165(c)(1) without regard to disaster declarations or AGI floors.

25. Dean is a recreational gambler who itemizes deductions. He finishes 2026 with \$18,000 in gambling winnings and \$15,000 in documented gambling losses from online sports betting and casino visits. Dean will report \$18,000 of gambling income on Schedule 1 and Form 1040. Under the OBBBA rules in effect for 2026, how much may he deduct for his gambling losses on Schedule A?

- ☐ {a}. \$12,000; 80% of gambling losses.
- ☐ {b}. \$15,000; 100% of gambling losses (no changes were made to this deduction).
- ☐ {c}. \$13,500; the lesser of gambling winnings or 90% of gambling losses.
- ☐ {d}. \$0; the OBBBA repealed the itemized deduction for gambling losses.

Chapter 5. QUALIFIED BUSINESS INCOME DEDUCTION

26. Sean is a sole proprietor who reports \$85,000 of net profit on Schedule C. On Schedule 1, he claims a \$6,000 deduction for one-half of self-employment tax, a \$4,000 deduction for contributing to a SEP-IRA, and a \$5,000 deduction for self-employed health insurance. Sean materially participates in the business and has no other QBI. When considering these facts, his QBI for the Section 199A deduction is:

- ☐ {a}. **\$85,000**
- ☐ {b}. \$85,000 minus \$6,000 equals **\$79,000**.
- ☐ {c}. \$85,000 minus \$6,000 minus \$4,000 equals **\$75,000**.
- ☐ {d}. \$85,000 minus \$6,000 minus \$4,000 minus \$5,000 equals **\$70,000**.

27. Carla is a partner in a law firm organized as a partnership. During the year, she received \$80,000 in guaranteed payments for legal services rendered to the partnership, and her distributive share of the partnership's ordinary business income was \$45,000. Which of the following correctly states Carla's qualified business income from the partnership?

- ☐ {a}. Her QBI is the \$45,000 of ordinary business income (guaranteed payments are excluded from QBI because they are considered compensation similar to a salary).
- ☐ {b}. Her QBI is \$125,000 because all amounts received from a partnership flow through to partners as QBI.
- ☐ {c}. Her QBI is \$80,000 because only guaranteed payments qualify as QBI.
- ☐ {d}. Her QBI is \$0 because partners in a law firm are performing services as employees and are excluded from Section 199A.

28. Nick is single and operates his business as a sole proprietorship – which produces \$60,000 of QBI. After all other deductions, his taxable income before the QBI deduction is \$40,000. That taxable income includes \$10,000 in net capital gains from investments. What is the correct amount of Nick's QBI deduction?

- ☐ {a}. \$12,000 (20% of the \$60,000 QBI).
- ☐ {b}. \$6,000 (20% of the \$30,000 taxable income that doesn't include capital gains).
- ☐ {c}. \$2,000 (20% of the \$10,000 in net capital gains).
- ☐ {d}. \$400 (the OBBBA's new minimum deduction floor).

29. Makenzie operates a small business as a sole proprietorship in 2026 and materially participates in the business. The business generates \$1,800 of QBI. The standard 20% QBI calculation yields \$360. Under the OBBBA changes effective for tax years beginning after December 31, 2025, what is Makenzie's **maximum allowable QBI deduction**?

- ☐ {a}. \$0
- ☐ {b}. \$400
- ☐ {c}. \$360
- ☐ {d}. \$1,800

30. In 2026, the Section 199A taxable income threshold for unmarried taxpayers is \$201,750, and the phaseout range for specified service trades or businesses (SSTBs) extends to \$276,750. What happens to an unmarried SSTB owner's Section 199A QBI deduction once taxable income exceeds \$276,750?

- ☐ {a}. No QBI deduction; the deduction is completely phased out above \$276,750 for an unmarried SSTB owner.
- ☐ {b}. The SSTB owner still gets the full 20% QBI deduction.
- ☐ {c}. The SSTB owner gets an increased 23% QBI deduction enacted by the OBBBA.
- ☐ {d}. The SSTB owner gets a partial deduction computed under Section 199A formulas.

31. Even when a taxpayer's income is below the Section 199A threshold, certain payments require the use of the more detailed Form 8995-A instead of the simplified Form 8995. Which of the following situations requires the taxpayer to use Form 8995-A?

- ☐ {a}. The taxpayer received qualified publicly traded partnership (PTP) income.
- ☐ {b}. The taxpayer received qualified real estate investment trust (REIT) dividends.
- ☐ {c}. The taxpayer is a patron of an agricultural or horticultural cooperative with qualified payments.
- ☐ {d}. The taxpayer is a sole proprietor with net profits reported on Schedule C.

Chapter 6. OTHER BUSINESS PROVISIONS UNDER OBBBA

32. In 2026, Gary buys a heavy SUV (GVWR 7,200 pounds) for \$80,000 and uses it 100% for his business. Gary has sufficient taxable income for a Section 179 deduction in 2026. He also qualifies for 100% bonus depreciation. What is Gary's **maximum legal deduction** related to the new vehicle purchase in 2026?

- ☐ {a}. He cannot deduct any of the new business vehicle costs in 2026.
- ☐ {b}. He can deduct \$12,300 in year 1 and lower amounts in years 2 through 5.
- ☐ {c}. He can deduct \$20,300 in year 1 and lower amounts in years 2 through 5.
- ☐ {d}. In 2026, he may deduct \$32,000 under Section 179 and the remaining \$48,000 using 100% bonus depreciation.

33. In early 2026, Calvin invests \$53,000 in original-issue stock of a qualifying domestic C corporation that meets all QSBS requirements under IRC Section 1202. Calvin is among the initial shareholders and founding members of the new company. Let's say that he sells the stock in late 2031 (after five years) for \$100,000. How much of his \$47,000 gain will be excluded from income under the OBBBA's tiered QSBS rules?

- ☐ {a}. None of the gain is excluded; the \$47,000 is subject to standard capital gains tax.
- ☐ {b}. 50% of the gain is excluded from income; the remainder is taxed at 28% and may also be subject to NIIT.
- ☐ {c}. 75% of the gain is excluded from income; the remainder is taxed at 28% and may also be subject to NIIT.
- ☐ {d}. 100% of the gain is excluded from income.

34. Sunrise Dental Care is an eligible small business that wants to offer a childcare benefit to help retain hygienists and office staff. Since it is not large enough to operate its own on-site childcare facility, it incurs \$30,000 of qualified childcare expenditures through a contract with an intermediary that arranges care with licensed providers. What is the maximum credit that Sunrise Dental may claim under Section 45F in 2026?

- ☐ {a}. \$15,000 (at the 50% small business rate).
- ☐ {b}. \$12,000 (at the 40% general rate).
- ☐ {c}. \$7,500 (at the longstanding 25% rate).
- ☐ {d}. \$0, because this credit is only for costs related to direct ownership of an on-site childcare facility.

35. Family Pet Care Center (FPCC) has a written policy that allows qualifying full-time employees two weeks of paid family and medical leave per year. FPCC's policy is to pay employees 100% of their normal wages while on qualified leave. Lea is a full-time employee at FPCC. If Lea takes two weeks off near the end of her pregnancy and FPCC pays her 100% of her regular wages, then FPCC may claim a tax credit equal to:

- ☐ {a}. 50% of the wages paid to Lea during her leave
- ☐ {b}. 25% of the wages paid to Lea during her leave
- ☐ {c}. 100% of the wages paid to Lea during her leave
- ☐ {d}. none of the above; the OBBBA has repealed the Section 45S tax credit

36. In 2026, a small business hires a consultant for a project and pays them a total of \$1,900 during the calendar year. Under the OBBBA's updated information reporting requirements, which statement is correct?

- ☐ {a}. A Form 1099-NEC is required because the payment exceeds \$600.
- ☐ {b}. A Form 1099-NEC is required because payments exceed the new OBBBA threshold of \$1,000.
- ☐ {c}. No Form 1099-NEC is required because the payment is below the \$2,000 threshold.
- ☐ {d}. A Form 1099-MISC is required instead of a 1099-NEC for all amounts under \$2,000.

37. During tax season, you are reviewing documents with new clients. Identifying which clients should have received a Form 1099-K matters because a copy of the form goes to the IRS, and missing income reported on a 1099-K is a common audit trigger. Which of the following clients should have received a Form 1099-K reporting business income received in 2026?

- ☐ {a}. A landscaper who received \$37,000 in cash payments from customers.
- ☐ {b}. A dog groomer who received \$32,000 in credit card payments processed through Square.
- ☐ {c}. A consultant who received \$18,000 in checks from clients for services.
- ☐ {d}. A wage-earner who received \$16,000 from a roommate through Venmo's "friends and family" setting.

Chapter 7. THE CHILD TAX CREDIT & ITS ALTERNATIVES

38. A married couple filing jointly in 2026 has one qualifying child who has a valid Social Security number (SSN). One spouse has a valid SSN; the other has only an Individual Taxpayer Identification Number (ITIN). Which of the following statements is true regarding the OBBBA's new taxpayer identification requirements for the Child Tax Credit (CTC)?

- ☐ {a}. An ITIN is acceptable for both spouses and the child when claiming the CTC.
- ☐ {b}. Only the child must have a valid SSN; neither spouse is required to have an SSN.
- ☐ {c}. The child must have a valid SSN, and at least one spouse must have a valid SSN to claim the CTC.
- ☐ {d}. The child must have a valid SSN, and both parents (even when they don't live together) must have valid SSNs to claim the CTC.

39. Selina shares a home with her 5-year-old daughter and uses the head-of-household filing status. She earned \$13,167 in 2026. Because of her low income, Selina will not owe any federal income taxes in 2026. What is the amount of Selina's Additional Child Tax Credit (ACTC)?

- ☐ {a}. **\$0**; the CTC and ACTC are only for parents with a federal tax liability.
- ☐ {b}. In 2026, up to **\$1,000** of the child tax credit is refundable through the ACTC.
- ☐ {c}. The ACTC is \$1,700 or 15% of earned income over \$2,500, whichever is less, so Selina's tax credit is **\$1,600** [$(\$13,167 - \$2,500) \times 15\%$].
- ☐ {d}. The CTC is fully refundable in 2026, so Selina will receive **\$2,200** even if she owes no federal income tax.

40. Kyle and Laney are married and have three dependents. They provided more than half of the financial support for each dependent. These family members lived with Kyle and Laney in the same household all year. Which of these dependents is eligible for the ODC in 2026?

- ☐ {a}. Carmy is the 18-year-old daughter who did not qualify for the child tax credit because of her age.
- ☐ {b}. Fletcher is a 22-year-old full-time student who lives with his parents while attending the local college.
- ☐ {c}. Geri, Laney's mother, received only tax-free Social Security benefits while living with Laney and her family.
- ☐ {d}. All the dependents listed above may be claimed for the ODC on Kyle and Laney's 2026 return.

41. Yazmin's son, Simon, is 25 years old and single at the end of the tax year. Throughout 2026, Simon lived at Yazmin's home. Both mother and son are US citizens with Social Security numbers. Simon's annual income was only \$5,000, and Yazmin provided more than half his support for the year. For federal tax purposes, Simon is considered to be Yazmin's:

- ☐ {a}. qualifying relative, which means he can be claimed as her dependent for the \$500 ODC
- ☐ {b}. qualifying child, which means he can be claimed as her dependent for the \$2,200 child tax credit
- ☐ {c}. additional child, which means he can be claimed as her dependent for the \$1,700 additional child tax credit
- ☐ {d}. none of the above

Chapter 8. THE CHILD & DEPENDENT CARE TAX CREDIT

42. Ebony is a single mom who works full-time. Her son, who is not mentally or physically disabled, turned 13 years old on August 13. She paid \$2,275 for childcare (an after-school program) between January 1 and August 12 — when her son was 12. Ebony paid \$1,625 for childcare between August 13 and December 31 — when her son was 13. How much of Ebony's annual childcare expenses count towards the CDCTC?

- ☐ {a}. \$1,625 (the expenses incurred when Ebony's son was 13).
- ☐ {b}. \$2,275 (the expenses incurred when Ebony's son was 12).
- ☐ {c}. \$3,900 (the expenses incurred throughout the year).
- ☐ {d}. \$0; Ebony cannot claim ANY credit on this year's tax return because her son turned 13 in August.

43. Which of the following summer expenses for a 10-year-old qualifying child would be eligible for the CDCTC, assuming all other gainful employment and income requirements are met?

- ☐ {a}. Wages paid to a tutor.
- ☐ {b}. Tuition for a summer school program.
- ☐ {c}. Fees for a weekday-only summer day camp.
- ☐ {d}. Expenses incurred for an overnight summer camp.

44. Bethanne and Alvin are married and file jointly. In 2026, they have two qualifying children, \$6,000 of allowable dependent care expenses, and an AGI of \$210,000. Under the OBBBA rules, which percentage applies to their child and dependent care tax credit?

- ☐ {a}. 50% (so their CDCTC equals \$3,000).
- ☐ {b}. 35% (so their CDCTC equals \$2,100).
- ☐ {c}. 20% (so their CDCTC equals \$1,200).
- ☐ {d}. 0%; the couple's AGI is too high for the CDCTC.

45. Pat has two kids under the age of 13 and paid \$6,000 during the year for after-school childcare. In 2026, Pat's earned income and AGI were \$43,000, while her initial tax liability was \$1,925. Pat's CDCTC is \$2,100 ($\$6,000 \times 35\%$). The CDCTC worth \$2,100 is greater than Pat's initial tax liability (\$1,925). How much of the CDCTC can she use on her 2026 return?

- ☐ {a}. \$1,925.
- ☐ {b}. \$2,100.
- ☐ {c}. \$6,000.
- ☐ {d}. \$0; Pat's earned income and AGI are too high for this credit.

Chapter 9. THE ADOPTION TAX CREDIT

46. In 2026, a couple adopts a foreign child and incurs qualified adoption expenses. Their initial adoption credit is \$15,000, but their federal income tax liability before the credit is only \$3,000. Under the OBBBA, what is the **maximum amount** of the credit they may receive as a refund?

- ☐ {a}. Up to \$5,120 in 2026.
- ☐ {b}. \$3,000; the \$12,000 portion is lost.
- ☐ {c}. \$15,000, the full credit amount is refundable.
- ☐ {d}. \$0; no portion of the adoption credit is refundable.

47. In 2026, Lily finalizes the adoption of two American kids from foster care. The public agency issued adoption assistance agreements determining that the children have "special needs" and would not be adoptable without subsidies. Lily pays no qualified adoption expenses, and her MAGI is below the income phaseouts. Before applying tax-liability limits, what is the maximum adoption credit she may claim in 2026?

- ☐ {a}. No credit is allowed because Lily paid no qualified adoption expenses.
- ☐ {b}. The allowable credit is \$17,670 minus the subsidy payments.
- ☐ {c}. Only one \$17,670 credit is allowed per return, regardless of the number of children adopted.
- ☐ {d}. The credit is \$35,340 because the full credit is allowed for each special-needs child ($\$17,670 \times 2$) regardless of the amount of qualified expenses.

48. Hans and Tyler finalized a domestic non-special-needs adoption in 2026 with \$17,000 in qualified expenses. The couple's MAGI is below the income threshold, and their federal tax liability is \$8,000. The nonrefundable portion of the adoption credit offsets Hans and Tyler's tax liability of \$8,000 (leaving them with no federal income tax). What is the couple's refund from the adoption credit, and what amount carries forward?

- ☐ {a}. Refund of \$5,120; no carryforward.
- ☐ {b}. Refund of \$5,120; carryforward of \$3,880 (nonrefundable, up to five years).
- ☐ {c}. Refund of \$9,000; no carryforward because the full credit is now refundable.
- ☐ {d}. Refund of \$0; the adoption credit is nonrefundable, and there is no carryforward.

Chapter 10. REPEALED, EXPIRED, & RESTRICTED CREDITS

49. In May 2026, Sabrina hires an electrician to install a Level-2 EV charger at her principal residence — located in an eligible low-income census tract. The unit was fully installed and placed in service on June 10, 2026. The EV charging station costs \$700. The labor cost was \$1,100, and the total project cost was \$1,800 ($\$700 + \$1,100$). In 2026, Sabrina may claim a Section 30C refueling property credit in the amount of:

- ☐ {a}. \$0; this tax credit expired on September 30, 2025
- ☐ {b}. \$540; 30% of the total costs of purchasing and installing EV equipment
- ☐ {c}. \$900; 50% of the total costs of purchasing and installing EV equipment
- ☐ {d}. \$1,800; 100% of the total costs of purchasing and installing EV equipment

50. The premium tax credit (PTC) helps to reduce the cost of insurance bought through healthcare exchanges, such as Covered California. Generally, the closer a taxpayer's income is to the federal poverty level (FPL), the more assistance they are likely to receive through the PTC. How has the PTC changed in 2026 for taxpayers with household incomes that exceed 400% of the FPL?

- ☐ {a}. The OBBBA has created a new PTC covering "30% of health insurance costs" that applies to all taxpayers, regardless of income.
- ☐ {b}. The OBBBA has created a new flat \$1,000 credit cap that applies to all taxpayers, regardless of income.
- ☐ {c}. The OBBBA extended the enhanced PTC provisions, so taxpayers with household incomes that exceed 400% of the FPL remain fully eligible for the credit.
- ☐ {d}. The temporary provision allowing taxpayers with incomes over 400% of the FPL to qualify for the PTC expired after 2025, so this group is no longer eligible for the credit.

Part B. FEDERAL TAX LAW UPDATE (3 CE HOURS)

Chapter 11. IRS GUIDANCE INTERPRETING OBBBA

51. Michelle is a full-time restaurant server, an occupation listed under the new TTOC system. She earns \$12,000 in voluntary credit-card tips and \$3,500 in mandatory 18% service charges in 2026. Michelle's MAGI is \$75,000, and she will claim the standard deduction. Under the final regulations, how much may she claim as a qualified tips deduction on Schedule 1-A?

- ☐ {a}. \$15,500, because all gratuities for listed occupations qualify.
- ☐ {b}. \$12,000, because only voluntary customer payments qualify as tips.
- ☐ {c}. \$10,000, because this is the maximum amount allowed for the tips deduction.
- ☐ {d}. \$0, because the deduction is available only to taxpayers who itemize.

52. In 2026, Gregg's employer contributes \$2,000 to a Trump Account established for Gregg's 6-year-old daughter. If Gregg's parents want to add money to their granddaughter's account during the same year, what is the maximum amount they may contribute?

- ☐ {a}. \$5,000, because employer and family contributions have separate limits.
- ☐ {b}. \$3,000, because the employer contribution counts toward the \$5,000 aggregate annual limit.
- ☐ {c}. \$1,000, because grandparents may contribute only the amount of the government seed contribution.
- ☐ {d}. \$0, because only a parent or employer may contribute to a Trump Account.

53. Widgets & Wonders (W&W) purchases used equipment from an unrelated broker. The equipment has never been used by W&W (or a related party). The equipment is delivered and placed in service in February 2026. Assuming the equipment is otherwise qualified property, what bonus depreciation treatment applies?

- ☐ {a}. The equipment may qualify for 100% bonus depreciation.
- ☐ {b}. No bonus depreciation is allowed because the property is used.
- ☐ {c}. 20%, because used property remains subject to the TCJA phase-down rate in 2026.
- ☐ {d}. 50%, because used property qualifies at half the rate available for original-use property.

Chapter 12. OTHER IRS DEVELOPMENTS IN 2026

54. Herbert sold personal collectibles through an online platform in 2026, receiving \$40,371 in gross payments from 465 transactions. He performed no services as an employee or independent contractor during the year. Following the OBBBA, which information return will the platform issue to Herbert in early 2027?

- ☐ {a}. Form 1099-NEC, because his gross payments exceeded the OBBBA's updated \$2,000 threshold for nonemployee compensation.
- ☐ {b}. Form 1099-MISC, because online sale proceeds are reported as miscellaneous income.
- ☐ {c}. Form 1099-K, because his online platform sales exceeded both the \$20,000 gross payment and 200-transaction federal thresholds.
- ☐ {d}. Notice CP53E, because the OBBBA requires the IRS to issue a formal identity verification notice to online marketplace sellers.

55. Kora receives Notice CP53E after filing Form 1040. The IRS approved her refund, but her bank rejected the direct deposit because she mistyped the routing number. Under the IRS procedures implementing Executive Order 14247, which action should she take?

- ☐ {a}. **File** an amended return (Form 1040-X) showing the correct bank account information.
- ☐ {b}. **Mail** a paper Form 8888 to redirect the refund to the corrected account.
- ☐ {c}. **Log in** to her IRS Individual Online Account and update her bank information within 30 days; otherwise, the IRS will mail a paper check after several weeks.
- ☐ {d}. **Call** the toll-free number on the notice and provide the correct banking information to an IRS representative.

56. In 2026, an individual taxpayer who never enrolled in EFTPS wants to schedule his remaining quarterly estimated tax payments electronically. Which statement is accurate?

- ☐ {a}. He **may** enroll in EFTPS and schedule payments up to one year in advance.
- ☐ {b}. With the closure of EFTPS, the taxpayer **must** mail estimated tax vouchers because electronic scheduling is no longer available.
- ☐ {c}. With the closure of EFTPS, the taxpayer **must** use a cash-based retail network, such as VanillaDirect, that charges convenience fees.
- ☐ {d}. New EFTPS enrollment is closed; the taxpayer **may** use IRS Direct Pay or the IRS Individual Online Account to schedule payments electronically.

57. A practitioner submits a valid POA request through the Tax Pro Account on Monday morning and expects immediate access to a client's transcripts. By Tuesday afternoon, access has not been granted. What is the most likely cause of this delay?

- ☐ {a}. POA requests are queued for IRS manual review, which can take several weeks.
- ☐ {b}. Transcript access becomes available only after the next weekly CAF update cycle.
- ☐ {c}. Access is delayed up to 72 hours while the IRS manually verifies practitioner credentials.
- ☐ {d}. The client has not yet logged into their Individual Online Account to electronically approve the practitioner's request.

Chapter 13. SECURE 2.0 UPDATES FOR 2026

58. Amy is self-employed, and her custodian now supports Roth SEP accounts in 2026. Amy designates her \$24,000 SEP contribution as Roth. Under SECURE 2.0 and Notice 2024-2, how is the contribution treated for income and reporting purposes?

- ☐ {a}. The \$24,000 is included in Amy's 2026 gross income and reported on Form 1099-R; she cannot deduct the contribution.
- ☐ {b}. Amy deducts the \$24,000 contribution in 2026 and reports it on Form 5498.
- ☐ {c}. The \$24,000 is excluded from gross income in 2026 and reported on Form W-2.
- ☐ {d}. The \$24,000 is excluded from 2026 income and taxed only upon distribution, as with a traditional SEP contribution.

59. Finn, age 57, earned \$162,000 of 2025 FICA wages from the employer sponsoring his 401(k) plan. The inflation-adjusted Roth catch-up threshold is \$150,000. In 2026, Finn makes the maximum regular elective deferral of \$24,500 plus an \$8,000 catch-up contribution to his 401(k). The plan offers both pretax and Roth options. How must the catch-up contribution be treated?

- ☐ {a}. It must be made entirely as a designated after-tax Roth contribution.
- ☐ {b}. It must be deposited into a traditional IRA.
- ☐ {c}. The catch-up contribution is prohibited because Finn exceeded the wage threshold.
- ☐ {d}. Finn can split the catch-up contribution, putting half into a pretax account and the other half into a Roth account.

60. In 2025, at age 59, Jan contributed \$23,500 to her 401(k) plan and made an additional \$7,500 catch-up contribution. Jan's 2025 FICA wages from the sponsoring employer were \$120,000 (below the Roth catch-up threshold of \$150,000). In 2026, Jan turns 60. Her employer's plan has adopted the "super catch-up" provision. What is the maximum 401(k) catch-up contribution Jan may make for 2026?

- ☐ {a}. Jan is limited to the standard catch-up amount of \$8,000.
- ☐ {b}. There is no maximum; Jan may contribute any amount to her 401(k).
- ☐ {c}. No catch-up contribution is permitted because Jan's wages did not reach the Roth catch-up threshold.
- ☐ {d}. Jan can contribute up to the higher limit of \$11,250.

61. Karsen is a 50-year-old client who participates in a 401(k) plan that has adopted the qualified long-term care distribution (QLTCD) feature added by SECURE 2.0. In 2026, he wants a distribution to pay the \$3,000 annual premium on his certified long-term care insurance contract. His 401(k) vested account balance is \$36,000. After considering every limit on QLTCDs, what is Karsen's maximum penalty-free distribution?

- ☐ {a}. \$0 — distributions before age 59½ are never penalty-free.
- ☐ {b}. \$2,600 — the indexed dollar limit for 2026.
- ☐ {c}. \$3,000 — the full premium cost (there are no limits to QLTCDs).
- ☐ {d}. \$7,200 — 20% of the vested account balance.

62. The longstanding Saver's Credit under IRC Section 25B expires after the 2026 tax year for IRA and retirement plan contributions. Beginning January 1, 2027, SECURE 2.0 replaces it with the Saver's Match. The Saver's Credit and the Saver's Match share similar age and income eligibility requirements. Which of the three taxpayers listed below may qualify for the Saver's Credit?

- ☐ {a}. Deana is a head-of-household filer with an AGI of \$81,000 and contributed to a 401(k) plan.
- ☐ {b}. Cecile is a single filer with an AGI of \$30,000, and she contributed to her ABLE account (which lists her as the designated beneficiary).
- ☐ {c}. Lamarcus is a 17-year-old student who used his summer job income to contribute to a Roth IRA (he will be claimed as a dependent on his parents' tax return).
- ☐ {d}. All three taxpayers listed above will qualify for the 2026 Saver's Credit.

63. In 2026, married taxpayers file jointly, and each contributes \$2,000 to separate traditional IRAs. Their AGI qualifies them for the 50% Saver's Credit rate. After all other credits and deductions, their federal income tax liability is \$450. What is their allowable Saver's Credit?

- ☐ {a}. \$450, because the nonrefundable credit cannot exceed their tax liability.
- ☐ {b}. \$1,000, because each spouse receives 50% of up to \$2,000 of contributions.
- ☐ {c}. \$2,000, because their tentative credit equals 50% of \$4,000.
- ☐ {d}. \$4,000, because joint filers may double the \$2,000 maximum credit.

64. Alfred, age 25, is a single filer who lives with his parents. He is not a student and is not claimed as a dependent. In 2027, Alfred's MAGI is expected to be approximately \$19,000, and he will not owe any federal income tax. Alfred will contribute \$2,000 to a traditional IRA. If he meets the other requirements, what will his Saver's Match benefit be for 2027?

- ☐ {a}. No benefit because the Saver's Match is nonrefundable and limited to tax liability.
- ☐ {b}. A \$1,000 credit on Alfred's 2027 return, with any unused amount carried forward.
- ☐ {c}. A \$1,000 Treasury deposit into Alfred's traditional IRA, despite his zero tax liability.
- ☐ {d}. A \$2,000 Treasury deposit matching Alfred's full contribution.

65. A municipal firefighter was permanently disabled in a line-of-duty incident and retired in 2020. He received \$80,000 annually in excludable disability payments until reaching normal retirement age in 2026, when the payments became taxable as a pension. Assuming the payments otherwise satisfy IRC Section 139C, how will they be treated for federal income tax purposes in 2027?

- ☐ {a}. The payments will remain fully taxable as ordinary income in 2027.
- ☐ {b}. The payments will remain taxable, but subject to preferential rates in 2027.
- ☐ {c}. The payments will become excludable, but only up to a statutory cap of \$10,000.
- ☐ {d}. The payments will become excludable from gross income, restoring the treatment that applied before retirement age.

Part C. ETHICS (2 CE HOURS)

Chapter 14. CIRCULAR 230 ESSENTIALS

66. The upcoming Circular 230 will include a new section for the Annual Filing Season Program (AFSP). Proposed Section 10.7(c)(1)(viii) will categorize AFSP participants as federally authorized tax practitioners. CTEC-Registered Tax Professionals (CRTPs) must complete _____ to qualify for AFSP status and benefits.

- ☐ {a}. a 10-hour course on federal tax laws and a 2-hour course on ethics (for a total of 12 CE hours)
- ☐ {b}. a 10-hour course on federal tax laws, a 2-hour course on ethics, and a 3-hour course on federal updates (for a total of 15 CE hours)
- ☐ {c}. a 10-hour course on federal tax laws and a 6-hour federal tax refresher course (for a total of 16 CE hours)
- ☐ {d}. a 10-hour course on federal tax laws, a 2-hour course on ethics, and a 5-hour course on California tax laws (for a total of 17 CE hours)

67. CRTPs can qualify for AFSP benefits without taking the Annual Federal Tax Refresher (AFTR) course. In other words, CRTPs are exempt from the AFTR course. If the IRS asks a CRTP to complete the AFTR course and 18 CE hours of AFSP training, it is likely that the entries in the "Professional Credentials" section of their PTIN account are:

- ☐ {a}. incomplete (a critical field in the "Professional Credentials" section is blank or empty)
- ☐ {b}. out-of-date (the listed expiration date for the credential has already passed)
- ☐ {c}. not verified by the relevant licensing body (perhaps CTEC has not yet transmitted the CRTP's renewal data to the IRS)
- ☐ {d}. any of the above

68. A practitioner discovers that a client failed to report a \$5,000 capital gain in 2025, which should have eliminated a capital loss carryforward that the client is now trying to use on their 2026 return. The client admits the error but refuses to amend the 2025 return or adjust the 2026 carryforward. According to Section 10.21 of Circular 230, the practitioner must:

- ☐ {a}. immediately prepare an amended tax return despite the client's objections.
- ☐ {b}. refuse to sign the 2026 return if it includes the erroneous carryforward, and consider withdrawing from the engagement.
- ☐ {c}. inform the IRS of the 2025 error under the "whistleblower" provisions of Circular 230.
- ☐ {d}. prepare the 2026 return according to the client's instructions (with the erroneous carryforward) before signing and filing it.

69. Tommy prepares a Form 1040 claiming head of household (HOH) status and the EITC. The client qualifies for both, but Tommy completes no Form 8867 due diligence for either. Which statement correctly describes his Section 6695(g) preparer penalty exposure for this return?

- ☐ {a}. Two penalties apply — one for the EITC failure, one for the HOH failure.
- ☐ {b}. One penalty applies for the return, regardless of how many benefits are involved.
- ☐ {c}. Only the EITC failure is penalized; HOH status carries no diligence requirement.
- ☐ {d}. No penalty applies because the client actually qualified for both benefits.

70. A California-based tax practitioner is representing an American expatriate living in Costa Rica. The client does not maintain a US bank account and expects a significant refund on his 2026 federal tax return. Under the proposed updates to Circular 230 and IRS procedures, which action should the practitioner take to help the client while remaining compliant with Section 10.31?

- ☐ {a}. Have the client direct their federal tax refund to the practitioner's US bank account, and the practitioner will then remit the balance to the client via international wire.
- ☐ {b}. The IRS allows a direct deposit of a refund into a foreign bank account, so instruct the client to provide the Costa Rican bank account information on their US tax return.
- ☐ {c}. Have the client open a digital account (such as Wise or Revolut) to obtain a US routing and account number, which would allow for a direct deposit of their tax refund.
- ☐ {d}. Advise the client to request a paper check, as this is the IRS's only method for delivering refunds to taxpayers overseas.

71. Theresa is a tax professional who prepares a return with a debatable position. She examines legal sources on the nonstandard tax position, which could result in significant tax savings for the client, but concludes that the "substantial authority" standard is not met. If a tax position does not have substantial authority but has at least a "reasonable basis," the IRC Section 6694(a) penalty can be avoided if:

- ☐ {a}. the position is adequately disclosed on the client's return (using Form 8275)
- ☐ {b}. the client is informed about potential accuracy-related penalties, as required by Section 10.34(c) of Circular 230
- ☐ {c}. both {a} and {b}
- ☐ {d}. none of the above; preparers and taxpayers will always be penalized for taking nonstandard tax positions that have a reasonable basis

72. Nicolette is a CRTP who serves about 70 wage-earning clients. Before the tax season, she receives a call from Garret, a potential client. Garret tells Nicolette that he is a cryptocurrency investor and would like her to prepare his tax return. However, she has never helped a client with a significant income stream from digital assets. Under Circular 230 (§10.35), the most complete statement of how Nicolette may proceed is:

- ☐ {a}. She can decline the engagement.
- ☐ {b}. She can complete a crash course on crypto taxation if this helps her meet the competency requirement in this matter.
- ☐ {c}. She can consult with cryptocurrency tax specialists and conduct independent research to meet the competency requirement in this matter.
- ☐ {d}. Any of the above; Nicolette may decline the engagement, or she may acquire the necessary competence through education, consultation, or research.

73. Which of the following would be considered disreputable conduct subject to disciplinary action under Section 10.51 of Circular 230?

- ☐ {a}. Failure to e-file a client's tax return when the practitioner is required to do so.
- ☐ {b}. Failure to provide a PTIN on the client's tax return when the practitioner is required to do so.
- ☐ {c}. Failure to sign a client's tax return when federal tax laws require the practitioner's signature.
- ☐ {d}. Failing to do any of the above would be considered disreputable conduct and subject to disciplinary action.

74. A tax preparer's laptop is stolen. Since the preparer failed to implement reasonable safeguards, the thief accessed sensitive client data, and the breach was reported to the IRS. The IRS concludes the resulting disclosure was **unintentional**. In addition to Circular 230 sanctions, which Internal Revenue Code penalty is the preparer most likely to face?

- ☐ {a}. A civil penalty of \$250 per unauthorized disclosure, up to \$10,000 per year [IRC Section 6713].
- ☐ {b}. A criminal penalty of up to \$1,000 and up to one year in prison [IRC Section 7216].
- ☐ {c}. A criminal penalty of up to \$5,000 and up to five years in prison [IRC Section 7213].
- ☐ {d}. No Internal Revenue Code penalty, because the disclosure was not intentional.

75. A WISP is a data security plan that outlines the specific measures and protocols a business has implemented to protect client information. Section 10.33(a)(4) in the next edition of Circular 230 would provide that it is a "best practice" for tax professionals to create a WISP. Moreover, as part of the PTIN renewal process, the IRS includes a section for tax professionals to:

- ☐ {a}. certify annual cybersecurity training hours
- ☐ {b}. demonstrate compliance with state privacy laws
- ☐ {c}. acknowledge their legal obligation to maintain a data security plan — i.e., a WISP
- ☐ {d}. submit a copy of their WISP to the IRS, signed by the firm's IT specialist

Part D. CALIFORNIA TAX LAWS (5 CE Hours)

Chapter 15. EXCLUSIONS FROM CALIFORNIA GROSS INCOME

76. A 529 plan is a tax-advantaged account designed to encourage saving for future education costs. California's college savings plan is called ScholarShare 529. Distributions from a ScholarShare 529 plan could have tax consequences at the federal and state levels, depending on the purpose of the withdrawal. Which of the following statements is true?

- ☐ {a}. A withdrawal of up to \$20,000 for **K-12 tuition** is federally tax-free but subject to California income tax and a 2.5% penalty on earnings.
- ☐ {b}. A withdrawal to cover expenses for a qualified **apprenticeship program** is nontaxable on both federal and California returns.
- ☐ {c}. A withdrawal of up to \$10,000 (lifetime limit) for **student loan repayment** is nontaxable on both federal and California returns.
- ☐ {d}. All of the above are true.

77. Vincent is a California resident. His employer maintains a written Section 127 educational assistance program that has been amended to include student loan payments. In 2026, the employer paid \$5,000 toward Vincent's qualified student loan. How is this payment treated for federal and California income tax purposes?

- ☐ {a}. The \$5,000 payment is excluded federally but is taxable in California.
- ☐ {b}. The \$5,000 payment is excluded federally and excluded by California.
- ☐ {c}. The \$5,000 payment is federally taxable but excluded from California tax.
- ☐ {d}. The \$5,000 payment is federally taxable and taxable in California.

78. In 2026, a California resident receives \$45,000 in student loan forgiveness under an income-driven repayment (IDR) plan after completing 25 years of payments. Assuming the taxpayer is solvent, what is the federal and California tax treatment of this discharge?

- ☐ {a}. Fully excludable for federal purposes, but fully taxable by California.
- ☐ {b}. Fully taxable for federal purposes, but fully excludable by California.
- ☐ {c}. Fully taxable for both federal and California income tax purposes.
- ☐ {d}. Fully excludable for both federal and California income tax purposes.

79. Cindy works in San Francisco's Financial District. Her employer provides a parking permit worth \$450 per month (\$5,400 per year) as a qualified transportation fringe benefit. In 2026, the federal monthly exclusion is limited to \$340, so the excess ($\$110 \times 12 = \$1,320$) is included in her W-2 wages. How should Cindy treat the parking benefit on her California return?

- ☐ {a}. Exclude the full \$5,400; California has no monthly cap on qualified transportation fringe benefits.
- ☐ {b}. Include \$1,320; California follows the federal \$340 monthly limit.
- ☐ {c}. Include \$3,360; California limits parking benefits to \$170 per month.
- ☐ {d}. Include the full \$5,400; California has no exclusion for employer-paid parking.

80. Bradley, a single California resident, receives \$34,000 of military retirement pay in 2026. His federal AGI is \$90,000. How much military retirement income may Bradley exclude from California gross income?

- ☐ {a}. He qualifies for a partial exclusion of \$10,000.
- ☐ {b}. He qualifies for a partial exclusion of \$20,000.
- ☐ {c}. He does not qualify for any exclusion because California still fully taxes military retirement pay.
- ☐ {d}. He qualifies for a full exclusion of \$34,000 because California exempts all military retirement pay through 2030.

Chapter 16. NON-ITEMIZED DEDUCTIONS IN CALIFORNIA

81. Greta is a California high school science teacher who spends \$600 on unreimbursed classroom supplies in 2026. She claims the federal standard deduction rather than itemizing. Which statement correctly describes the federal and California treatment of these expenses?

- ☐ {a}. Greta deducts \$350 at the federal level, and California allows the same deduction.
- ☐ {b}. Greta deducts \$350 for federal purposes; California does not conform to the educator expense deduction, so an add-back on Schedule CA is required.
- ☐ {c}. Greta deducts \$600 federally, and California also allows the full amount.
- ☐ {d}. Greta receives no federal deduction because she does not itemize; California allows a \$600 deduction.

82. Philip, a civilian, moves from Los Angeles to Sacramento for a new full-time job in 2026. Philip's new workplace is 386 miles from his former home — more than 50 miles farther than his old job. He incurs \$2,300 in unreimbursed moving expenses (excluding meals) and starts work shortly after the move. Which statement best describes the tax treatment of Philip's moving expenses?

- ☐ {a}. Deductible federally and in California.
- ☐ {b}. Deductible federally only.
- ☐ {c}. Deductible in California only.
- ☐ {d}. Nondeductible federally and in California.

83. Alfonso and Maira execute their divorce agreement on January 15, 2026. Under the agreement, Alfonso makes monthly spousal support (alimony) payments to Maira during 2026. Accounting for the federal rules established under the TCJA and California's newly enacted spousal support conformity rules (SB 711) effective for 2026 agreements, what is the tax treatment of these payments to Alfonso?

- ☐ {a}. Deductible for both federal and California income tax purposes.
- ☐ {b}. Nondeductible federally; deductible in California.
- ☐ {c}. Deductible federally; nondeductible in California.
- ☐ {d}. Nondeductible for both federal and California income tax purposes.

84. A married California couple filing jointly donates \$3,000 cash to a qualifying public charity in 2026 and claims the standard deduction on Form 1040 and Form 540. How is the donation treated on their 2026 federal and California income tax returns?

- ☐ {a}. Deduct \$3,000 federally and \$3,000 in California.
- ☐ {b}. Deduct \$2,000 federally and \$2,000 in California.
- ☐ {c}. Deduct \$2,000 federally; no deduction allowed on California Form 540.
- ☐ {d}. Deduct \$1,000 federally and \$1,000 in California.

Chapter 17. ITEMIZED DEDUCTIONS IN CALIFORNIA

85. Bill and Tiana file jointly and itemize deductions. In 2026, they take out a new \$850,000 acquisition loan to purchase a primary residence. If they pay \$56,000 in mortgage interest during the year, what amount is deductible for federal and California purposes?

- ☐ {a}. \$49,412 on federal Schedule A and \$49,412 on Schedule CA because both jurisdictions apply a \$750,000 limitation on acquisition debt.
- ☐ {b}. \$56,000 on federal Schedule A and \$56,000 on Schedule CA because both jurisdictions allow up to \$1 million of acquisition debt.
- ☐ {c}. \$56,000 on Schedule A and \$49,412 on Schedule CA because federal law applies a \$1 million limitation and California applies a \$750,000 cap.
- ☐ {d}. \$49,412 on Schedule A and \$56,000 on Schedule CA because federal law applies a \$750,000 limitation while California retains the \$1 million cap.

86. A married couple with an AGI of \$98,000 will file jointly and itemize deductions on their federal and California returns. If they pay \$3,600 in qualified mortgage insurance premiums in 2026, what amount is deductible on each tax return?

- ☐ {a}. Federal \$3,600; California \$3,600.
- ☐ {b}. Federal \$0; California \$0.
- ☐ {c}. Federal \$3,600; California \$0.
- ☐ {d}. Federal \$0; California \$3,600.

87. Sally will itemize deductions on her California tax return. Her AGI is \$100,000. In 2026, after receiving a large tax-free inheritance, she contributes \$65,000 in cash to a qualified public charity. How much of Sally's \$65,000 donation is deductible on her California return?

- ☐ {a}. \$50,000; California generally limits itemized charitable contributions to 50% of AGI and does not conform to the federal 60% or 0.5% rules.
- ☐ {b}. \$59,500; California conforms to both the federal 0.5% floor and 60% ceiling for itemized charitable contributions.
- ☐ {c}. \$60,000; California conforms to the federal 60% ceiling but not the 0.5% floor for itemized charitable contributions.
- ☐ {d}. \$65,000; California imposes no AGI-based limits on itemized charitable contributions.

88. A married couple with an AGI of \$150,000 will itemize deductions on both their federal and California returns. In July 2026, a kitchen fire causes \$40,000 of uninsured damage to the couple's California home. The fire is limited to their residence, and no disaster declaration is issued at any level of government. How is this uninsured personal casualty loss treated for tax purposes?

- ☐ {a}. Deductible federally, but nondeductible in California.
- ☐ {b}. Deductible on both the federal and California returns.
- ☐ {c}. Not deductible on either the federal or the California return.
- ☐ {d}. Nondeductible federally; potentially deductible in California, subject to the \$100 reduction and 10%-of-AGI limitation.

89. Reginald is a W-2 employee who itemizes deductions. During the year, he paid \$4,000 in job expenses (including work-related travel and education), which his employer did not reimburse. If Reginald's AGI is \$110,000, then he can deduct job-related expenditures that exceed \$2,200 (2% of his AGI) on this 2026 tax return:

- ☐ {a}. federal tax return (IRS Form 1040)
- ☐ {b}. California tax return (FTB Form 540)
- ☐ {c}. both the California and federal returns
- ☐ {d}. none of the above; miscellaneous itemized deductions have been repealed on both the federal and state levels

Chapter 18. TAX PROVISIONS FOR BUSINESSES IN CA

90. A pizzeria owner expects a net loss in his first year of operation. In January 2026, he bought commercial equipment. The business owner elects to recover the equipment cost on his federal return using 100% bonus depreciation, thereby generating a net operating loss (NOL) — bypassing Section 179's current-year taxable income limitations. On his California return, the equipment cost must be recovered using:

- ☐ {a}. bonus depreciation
- ☐ {b}. regular depreciation (MACRS)
- ☐ {c}. QPP rules under Section 168(n)
- ☐ {d}. none of the above; to bridge the massive budget deficit, California has suspended all cost recovery methods in 2026

91. A self-employed taxpayer purchases a new \$60,000 SUV in 2026 and uses it 100% for business. The SUV has a gross vehicle weight rating (GVWR) of 10,000 pounds. What are the maximum Section 179 expense deductions allowed for this vehicle on the federal and California tax returns?

- ☐ {a}. Federal \$32,000; California \$25,000.
- ☐ {b}. Federal \$60,000; California \$32,000.
- ☐ {c}. Federal \$25,000; California \$60,000.
- ☐ {d}. Federal \$60,000; California \$60,000.

92. In 2026, a financial advisor takes a prospective client to a baseball game at Dodger Stadium to discuss investment strategies. The advisor purchases the game tickets and pays separately for the food and beverages. The meal costs are 50% deductible for federal and California tax purposes. How are the ticket costs (which are considered entertainment expenses) treated for federal and California tax purposes?

- ☐ {a}. Nondeductible on both returns.
- ☐ {b}. 50% deductible on both returns.
- ☐ {c}. 100% deductible on both returns.
- ☐ {d}. Nondeductible federally; potentially 50% deductible for California.

93. The owners of a California partnership are high-income taxpayers who would normally face the federal SALT deduction cap. To get around this limit, the partnership plans to make the 2026 PTE tax election (and claim the related credit). But the entity misses the June 15 prepayment deadline. Under the rule effective January 1, 2026, what happens to the owners' California PTE tax credit?

- ☐ {a}. The owners' credit is increased by 12.5%.
- ☐ {b}. The owners' credit is reduced by 12.5%.
- ☐ {c}. The owners lose the entire credit for the year.
- ☐ {d}. The owners may still claim the full credit, despite missing the June 15 payment.

Chapter 19. CALIFORNIA TAX RATES & CAPITAL GAINS

94. Samuel, a California resident, sells stock held for three years at a \$40,000 gain. He is in the 15% federal long-term capital gains bracket. How will California tax this capital gain on Form 540?

- ☐ {a}. California taxes long-term gains at 1.3%.
- ☐ {b}. Long-term gains are exempt from California tax.
- ☐ {c}. California matches the federal 15% long-term rate.
- ☐ {d}. California taxes all capital gains as ordinary income.

95. In 2026, Kate completes a qualifying Section 1031 like-kind exchange of California commercial real estate. She realizes a gain of \$700,000. Under SB 711, how much of Kate's gain can be deferred, and what amount is currently taxable on her 2026 California return?

- ☐ {a}. No gain is deferred; \$700,000 is currently taxable.
- ☐ {b}. \$200,000 is deferred; \$500,000 is currently taxable.
- ☐ {c}. \$500,000 is deferred; \$200,000 is currently taxable.
- ☐ {d}. The entire \$700,000 gain is deferred; SB 711 did not make any changes to the California rules for like-kind exchanges.

Chapter 20. FAMILY-ORIENTED CREDITS IN CALIFORNIA

96. Ivey is 22 years old, has earned income, resides in California, and has no children. When considering her age, what is Ivey's eligibility status for the federal EITC and the state CalEITC?

- ☐ {a}. Ineligible for the federal EITC, but eligible for the CalEITC.
- ☐ {b}. Eligible for both the federal EITC and the CalEITC.
- ☐ {c}. Ineligible for both the federal EITC and the CalEITC.
- ☐ {d}. Eligible for the federal EITC, but ineligible for the CalEITC.

97. Freddy and Yessica file a joint California return. Freddy has a Social Security number valid for employment, while **Yessica files using an ITIN**. They have one qualifying child with a valid SSN. Their earned income and AGI otherwise satisfy all requirements for both the federal EITC and CalEITC. Which statement correctly describes Freddy and Yessica's credit eligibility?

- ☐ {a}. They qualify for the CalEITC but not the federal EITC.
- ☐ {b}. They qualify for the federal EITC but not the CalEITC.
- ☐ {c}. They qualify for both credits.
- ☐ {d}. They qualify for neither credit.

98. Alan and Janet have a federal AGI of \$80,000 and qualify for a federal child and dependent care credit of \$2,100. What is their California CDCTC?

- ☐ {a}. \$2,100, because California fully conforms to the federal credit amount.
- ☐ {b}. \$1,050, because California allows 50% of the federal credit at \$80,000 AGI.
- ☐ {c}. \$714, because California allows 34% of the federal credit at \$80,000 AGI.
- ☐ {d}. \$0, because their federal AGI exceeds the state limitation ceiling.

99. In 2026, Kameron and Owen finalized the adoption of a child who was in the custody of a California county foster care agency. The couple paid \$400 in agency fees, \$1,200 for adoption travel, and \$800 for unreimbursed medical expenses. On their federal tax return, they are eligible for an adoption credit of \$17,670. What California adoption credit may they claim on Form 540?

- ☐ {a}. \$0 (foster care adoptions don't qualify).
- ☐ {b}. \$1,200 (50% of \$2,400 qualified expenses).
- ☐ {c}. \$2,400 (total qualified expenses).
- ☐ {d}. \$2,500 (maximum credit per child, regardless of expenses).

100. Teddy is divorced and files as single. His 7-year-old daughter resided in his home for 160 days under a formal custody decree (less than half the year). Teddy pays all household maintenance costs and does not qualify for head-of-household status. Teddy's California AGI is \$48,500, his taxable income is \$42,800, and his net tax is \$950. What credit can he claim, and what is the amount?

- ☐ {a}. Joint custody HOH credit of \$285 (30% of \$950).
- ☐ {b}. Dependent parent credit of \$285 (30% of \$950).
- ☐ {c}. Senior HOH credit of \$856 (2% of \$42,800).
- ☐ {d}. Young child tax credit of \$1,189.

End of Exam — PLEASE READ THE NEXT PAGE

Part C. Final Steps

After Completing the Program

Congratulations! You have completed the final exam for the 20-hour continuing education program. Only a few steps remain to extend your eligibility to prepare client returns beyond October 31, 2026.

Step 1: This step is optional. On page 29, there is a link to a section on our website where we post articles about recent tax developments.

Step 2: Send your test information, evaluation form, and course fee using one of the delivery methods described on page 34.

Step 3: Wait for your test results to arrive by email. As discussed on pages 7 and 34, the response time depends on the delivery method you choose.

Step 4: Between October 15 and December 31, visit <https://www.irs.gov/ptin> to renew your Preparer Tax Identification Number (PTIN). Please read page 30 for details on how to participate in the IRS Annual Filing Season Program.

Step 5: Obtain or renew your California tax preparer bond at your earliest convenience. Many providers could issue a bond in 24 hours or less. For your consideration, a short list of bond providers is provided on page 31.

Step 6: Please visit <https://preparer.ctec.org/> as soon as possible. After logging in, follow CTEC's instructions to complete your registration for the current cycle.

After completing this final step, you will be eligible to prepare client returns between November 1, 2026, and October 31, 2027.

Course Update Policy

The information in this educational program was current as of the date of course publication, June 22, 2026. However, tax rules and laws often change. New rules are created while old laws are repealed or revised.

We aim to keep students up-to-date throughout the course validity period (after the launch date and before the expiration date). To achieve this objective, we closely monitor the tax landscape, and whenever a change occurs, we post the new, repealed, or revised tax law on our website, allowing all our students to view recent tax law changes. Below is a link to the update page.

<https://www.caltaxschool.org/6401.htm>

If your computer settings do not allow web links from a PDF file, or if you are currently reading a printout of the Exam Booklet, then you may access the update page by either:

- Typing the web address above into your browser's web address field; or
- Scanning the QR code below with your mobile device.



This update service will be available from July 1, 2026, to January 15, 2027. Changes occurring on or after January 16, 2027, will be included in our 2027 Update Course.

We encourage our students to stay informed about tax law changes through additional sources. The IRS and FTB offer email notifications to tax professionals who subscribe through the following locations:

<https://www.irs.gov/newsroom/e-news-subscriptions>

<https://www.ftb.ca.gov/about-ftb/newsroom/subscriptions.asp>

IRS Annual Filing Season Program

The IRS "Annual Filing Season Program" (AFSP) is a voluntary program designed to reward unenrolled or unlicensed tax preparers with special benefits if they choose to expand their knowledge of federal tax matters through continuing education (CE). Those who choose to participate in the program can meet the requirements by completing continuing education **by December 31** (the IRS does not provide any extensions to this deadline).

In exchange for their participation in the AFSP, the IRS will reward eligible PTIN-holders with the following benefits:

- Representation rights.
- Inclusion in an IRS directory (<https://irs.treasury.gov/rpo/rpo.jsf>) that allows the public to search for qualified tax professionals in their area.
- Record of Completion. This certificate will be available in the PTIN holder's online IRS account (about four weeks after completing AFSP requirements).

How many CE credit hours do you need for the IRS AFSP?		
	PTIN-holder without a tax credential	CTEC-registered tax professional (CRTP)
<i>Needs 10-hour Federal Tax Law course?</i>	Yes (+10)	Yes (+10)
<i>Needs 2-hour Ethics course?</i>	Yes (+2)	Yes (+2)
<i>Needs 3-hour Federal Update course?</i>	No	Yes (+3)
<i>Needs 6-hour AFTR course?</i>	Yes (+6)	No
<i>Needs 5-hour State Tax Law course?</i>	Not applicable to federal AFSP	Not applicable to federal AFSP (but CTEC does require a 5-hour California course)
<i>Total CE hours needed for IRS AFSP benefits</i>	= 18 CE hours	= 15 CE hours

If the IRS is asking you to complete the AFTR course and 18 hours for the AFSP, please do one of the following:

- Open your Course Reader and read pages 247, 248, and 249; or
- Visit https://www.caltaxschool.org/IRS_AFSP.htm

If you need expert assistance with your PTIN account, **please consider calling the PTIN Helpline at 877-613-7846 (M-F 6am to 3pm)**. IRS customer service representatives have full access to your PTIN account — including the "Professional Credential" section — so they are better positioned to help you in this matter.

Getting a Surety Bond

A policy for \$5,000 is required by statute. Most bond providers charge an annual premium ranging from \$25 to \$50 for the \$5,000 policy.

Below is a list of 10 popular bond providers (in alphabetical order). This list was compiled solely for informational purposes; we do not endorse any of these companies. Please conduct thorough research and select your bond provider carefully.

■ <http://www.allstatesuretybonds.com/fidelity-bonds/tax-preparer-bond/>

■ <http://www.bondcalifornia.com/taxpreparerbond.cfm>

■ <https://bondsexpress.com/>

■ <https://www.bossbonds.com/search-bonds>

■ <http://dimirakbonds.com/>

■ <https://merchantsbonding.com/talk-surety-to-me/california-tax-preparer-surety-bonds>

■ <https://www.nnasuretybonds.com/bonds/california-tax-preparer-bond>

■ <https://simplebond.com/order/form/states>

■ https://surety1.com/bond_info/california-tax-preparer-surety-bond/

■ <https://www.suretybonds.com/>

Student Course Evaluation

Students who send their traditional answer forms *by email, fax, or text message* may print this page, complete it, and deliver it to the California Tax School along with their answer forms. Students who choose to enter their test information *through the website* do not need to print or complete this page because they will be asked to complete a similar Evaluation Form online.

CE provider name:	California Tax School		
CE provider CTEC ID number:	3055		
CTEC course name:	20-Hour CE Program 2026/2027		
CTEC course number	3055-CE-02620		
CE provider IRS ID number:	K7RW7		
IRS program name:	Federal Tax Law Overview	Federal Tax Law Update	Ethics
IRS program number:	K7RW7-T-00053-26-S	K7RW7-U-00052-26-S	K7RW7-E-00051-26-S

On a scale of 1 to 5, with 5 being the highest rating, please circle the number that best describes your level of agreement with the following statements. NA = Not Applicable.						
All topics covered in this CE are relevant for tax pros.	5	4	3	2	1	NA
The course content is accurate and up-to-date.	5	4	3	2	1	NA
The stated learning objectives were met.	5	4	3	2	1	NA
The website, files, and/or printed materials were straightforward.	5	4	3	2	1	NA
About how long did it take you to complete the course?						

Which format did you choose for the Course Reader? You may circle or check your selection(s).				
PDF	Printout	Flipbooks	Purchased book	Audio/MP3 files

How would you rate your overall experience with this program?				
Very Satisfied 5	Satisfied 4	Mediocre 3	Dissatisfied 2	Very dissatisfied 1

Part of the course you found to be most beneficial:

Part of the course you found to be least beneficial:

Additional comments for 2026 / Suggestions for 2027:

Important Dates 2026 (2nd Notice)

August 1 (Saturday) CTEC begins accepting registration renewals for 2026-2027.
September 20 (Sunday) Must pass (and pay for) the final exam by 11:59 pm to qualify for the reduced rate of \$24.50.
September 21 (Monday) Course fee increases to \$36.75.
September 30 (Wednesday) Must pass (and pay for) the final exam by 11:59 pm to qualify for the reduced rate of \$36.75.
October 1 (Thursday) Course fee increases to \$49; this will be the rate for the remainder of the year.
October 15 (Thursday) IRS begins accepting PTIN renewals for 2026-2027.
October 28 (Wednesday) Test information received on or before October 28 will be processed by October 31, regardless of delivery method (web, email, fax, or text message).
October 29 – October 30 The final three days of October are the busiest of the year. For those who submit test information during this busy period, we strongly recommend using one of the website answer forms for faster service. We cannot guarantee that traditional answer forms (delivered by email, fax, or text message) will be processed by 11:59 pm on October 31.
October 31 (Saturday) Students who submit their final exams on October 31 might not have their credits posted by midnight due to the high volume of submissions. Paying a \$55 late fee to CTEC is undesirable, but rushing through a course on important tax laws could result in tax returns that are incorrectly prepared. Please consider spreading out your study time (across days or weeks) to better understand and memorize any course content that will benefit you and your clients.
December 31 (Thursday) LAST DAY TO SUBMIT FINAL EXAM ANSWERS FOR THIS 2026 COURSE. The IRS observes December 31 as the AFSP deadline without extensions.
January 15 (Friday) LAST DAY TO RENEW YOUR CTEC REGISTRATION.

Sending & Receiving Test Information

Delivering Your Test Answers

For faster service, we recommend that you deliver your test information through one of the online answer forms on our website. Alternatively, you can print out the answer form on page 8, type or write your entries in dark ink, and then send your test information via email, fax, or text message (delivery details are provided below). When sending the traditional answer form, we request that you include your Evaluation Form (page 32).

Login version of the online answer form: Visit <https://www.caltaxschool.org/6302-cmaf.htm> or scan the QR code on page 7. The time it takes to issue your test scores, certificate, and credit hours ranges from 5 minutes to 24 hours, with an average of about 3 hours. If you don't receive your test results by email within 24 hours, please check your SPAM folder or call us for assistance.

Short version of the online answer form: Visit <https://www.caltaxschool.org/6115-fpaf1.htm> or scan the QR code on page 7. The time it takes to issue your test scores, certificate, and credit hours ranges from 5 minutes to 24 hours, with an average of about 3 hours. If you don't receive your test results by email within 24 hours, please check your SPAM folder or call us for assistance.

Traditional answer form (page 8) by EMAIL: Send a digital image (or an attachment) of the traditional answer form to af@caltaxschool.net. Your test scores, certificate, and credit hours will be issued in 16 to 48 hours. Please do not choose this delivery method on October 29, October 30, or October 31.

Traditional answer form (page 8) by FAX: [877-830-6236](tel:877-830-6236). Call us if you don't get our "Confirmation of Receipt" email within 24 hours. Your test scores, certificate, and credit hours will be issued in 16 to 48 hours. Please do not choose this delivery method on October 29, October 30, or October 31.

Traditional answer form (page 8) by TEXT MESSAGE: [833-937-2877](tel:833-937-2877). Take a photo of your answer form with your phone, then text that image to us. Your test scores, certificate, and credit hours will be issued in 16 to 48 hours. Please do not choose this delivery method on October 29, October 30, or October 31.

Receiving Your Test Results

Our processing systems are programmed to issue electronic messages immediately after CTEC and IRS reporting is completed. Providing an email address on your Student Answer Form would allow us to deliver your test results quickly.

California Tax School will never sell, rent, lease, or give away your email address to any third party. We only collect your email address to provide you with the information or services you requested.

Many email service providers employ spam filters that often block our messages from your INBOX. To ensure that our incoming email is not classified as "junk mail" by your email program's spam filter, please take a moment to add ce@caltaxschool.net to your email contact list.

Please get in touch with us if you don't receive your test results within the specified timeframe (24 hours for the online answer form or 48 hours for the traditional answer form). We will email you additional copies of your test results at no extra cost.

Email: ce@caltaxschool.net (24/7)
Telephone: 877-900-4346 (M-F 9-5)

We wish you success, and thank you very much for participating in our CE program!